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MANITOBA PUBLIC INSURANCE

We're working for you

ANNUAL REPORT

03



**Manitoba
Public Insurance**

Letters of Transmittal

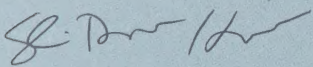
April 28, 2004

Honourable Gordon Mackintosh
Minister Responsible for the
Manitoba Public Insurance Corporation
Room 104, Legislative Building
Winnipeg, MB R3C 0V8

Dear Minister:

In accordance with Section 43(1) of The Manitoba Public Insurance Corporation Act, I have the honour of submitting the Annual Report of the Manitoba Public Insurance Corporation for the fiscal year ended February 29, 2004.

Respectfully submitted,



Shari Decter Hirst
CHAIRPERSON OF THE BOARD

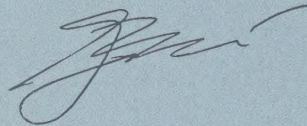
April 28, 2004

The Honourable Peter Liba
Lieutenant Governor of the Province of Manitoba
Room 235, Legislative Building
Winnipeg, MB R3C 0V8

May it please your honour:

I have the privilege of presenting the Annual Report of the Manitoba Public Insurance Corporation for the fiscal year ended February 29, 2004.

Respectfully submitted,



Gordon Mackintosh
ATTORNEY GENERAL AND MINISTER OF JUSTICE
MINISTER RESPONSIBLE FOR
MANITOBA PUBLIC INSURANCE



2003 Year-End Summary

Unless otherwise indicated, the following are 2003/2004 fiscal year totals, covering the period March 1, 2003 to February 29, 2004.

“Dollars and Cents”

Approximate Autopac claims incurred costs per working day:	\$2.3 million
Total Autopac claims costs for injury and property damage, respectively (before expenses):	\$233.8 million and \$326.2 million
Amount paid by Manitoba Public Insurance to Manitoba medical practitioners on behalf of customers:	\$19.3 million
Commissions paid by Manitoba Public Insurance to independent insurance brokers for product sales:	\$45.4 million
Grants-in-lieu of taxes paid to Manitoba municipalities by Manitoba Public Insurance:	\$1.0 million
Provincial premium taxes paid by Manitoba Public Insurance (2003 calendar year):	\$20.7 million
Estimated savings to policyholders through use of recycled parts:	\$12.7 million
Estimated direct savings to policyholders through subrogation:	\$11.2 million
Dollars invested in road safety programs:	\$7.4 million

“Significant Numbers”

Average number of Autopac claims reported to Manitoba Public Insurance per working day:	978
Total Autopac claims reported:	243,401
Bodily injury claims reported:	15,693
Property damage claims reported:	227,708
Total theft claims reported in Winnipeg:	10,011
Total theft claims reported elsewhere in province:	2,074
Independent Autopac broker outlets, as of February 29, 2004:	316
Calls answered by Manitoba Public Insurance Call Centre:	765,078
Number of Autopac policies in force (2003 average):	824,930
Licensed drivers in Manitoba in 2003:	720,099
Average weekly visits to www.mpi.mb.ca :	11,489

Five-Year Statistics

Basic, Extension and SRE^o	2003	2002	2001	2000	1999
Premiums Written (\$000)	680,265	641,471	595,171	539,054	529,694
Claims Incurred (\$000)	578,923	534,594	503,089	431,430	399,301
Number of Claims	243,401	227,259	239,753	226,968	207,202
Average Cost per Claim (\$)	2,378	2,352	2,098	1,901	1,927
Claims Expenses (\$000)	75,900	67,256	65,491	58,741	60,081
Other Expenses (\$000)	116,802	108,922	98,298	99,847	99,569
Income (loss) (\$000)	36,499	(22,794)	(16,492)	46,628	50,911
Total Corporation					
Investments at Year-End (\$000)	1,446,417	1,263,090	1,168,865	1,154,983	1,054,824
Total Assets (\$000)	1,767,615	1,558,435	1,431,476	1,402,456	1,284,017

^o Excludes Discontinued Operations



OUR MISSION Protecting Manitobans from the human and economic cost of automobile accidents

CONTENTS

Letters of Transmittal INSIDE FLAP

Year-End Summary INSIDE FLAP

- 1 Corporate Values
- 2 Chairperson's Message & Board of Directors
- 4 President's Message & Executive
- 6 We're Working for You
- 14 Fair Practices Office
- 15 Management Discussion & Analysis
- 26 Responsibility for Financial Statements
- 27 Auditors' Report & Actuary's Report
- 28 Financial Statements
- 32 Notes to Financial Statements

Selected highlights of this annual report
are available in French at www.mpi.mb.ca

Les grandes lignes du rapport sont présentées
en français dans le site at www.mpi.mb.ca



We're working for you

CORPORATE VALUES At Manitoba Public Insurance we value...

Our Customers

Our customers' interests come first. We serve the automobile insurance needs of Manitoba's motorists based on trust, fairness, honesty and integrity, with a commitment to the highest ethical standards and excellence in service. We will always place the legitimate needs of our customers ahead of those of our own.

Our People

Our people are encouraged and helped to succeed. We will provide a positive and safe environment where our staff are well-trained, confident and committed to the Corporate Mission. We will provide our people with direction which is clear and consistent. Our people will have the authority that they need to do their jobs, a sense of achievement from their work, and the opportunity for career growth and advancement.

Working Together

We will work co-operatively with each other and with our business associates, sharing information, ideas and resources. Each of us, in our daily work, will create a team environment, drawing on one another to do the best job possible. All communications will be forthright, accurate and honest.

Financial Responsibility

Manitoba Public Insurance holds the funds of its policyholders in trust to meet the needs of our customers. Manitoba Public Insurance will manage all of its operations, including the investment of these funds, effectively for the long-term benefit of its policyholders.

Excellence & Improvement

Our customers' needs and the business environment in which we operate continue to change and so must we. Our task is to constantly improve our products, services and procedures. We will demonstrate initiative, creativity and a strong desire for personal, team and corporate success in everything we do. Excellence and improvement in our work are recognized and rewarded.

Community Involvement

We encourage our people to participate actively in their communities.

Our Corporate Citizenship

We will provide leadership to the people of Manitoba by conducting our affairs responsibly and professionally, demonstrating concern for and commitment to our society and the future of our province.



Chairperson's Message

By virtually any measure, Manitoba Public Insurance demonstrated in 2003 why it continues to offer the very best insurance value in Canada.

I'm pleased to report a remarkably successful year, building on a record of service, stability and unbeatable coverage. In 2003, Manitoba Public Insurance:

- Held the line on insurance rates for the fifth year in a row
- Made \$37.3 million in income
- Met or exceeded corporate-wide service standards 94 per cent of the time
- Earned \$134.9 million in investment income, reducing premium costs by an average of \$142 per policy
- Maintained operating costs below 50 per cent of the Canadian industry average

Corporate governance was strengthened to highlight accountability, organizational effectiveness and risk mitigation. All corporate risks were reviewed, and a new monitoring process was developed to ensure timely recognition and response.

This Manitoba success story has become widely known throughout Canada, as more than a few provincial governments have shown an interest in our public insurance model. And when you consider the 22 per cent increases many consumers faced beyond our borders, it is easy to see why.

The pages of this report show how Manitoba has developed an insurance approach that meets the challenges other Canadian drivers are facing elsewhere.

This annual report also highlights other ways Manitoba Public Insurance provides value to the province, whether it's through our products and services, our investment in community projects, or the economic benefits generated by our operations. All contribute to our effort to help make Manitoba a better place to live.

Even though we are one of the largest businesses in the province, we remain a homegrown solution for Manitobans. We work where we live—providing caring, personal service to our customers in all corners of the province—and we partner with local insurance brokers,

auto repair shops and health-care providers to assist customers, whether they are buying insurance or processing a claim.

In an age when government and business are subject to heightened scrutiny, we've stayed true to our values. Because we strive to break even over the longer term, we've been able to remain focused on our objective of providing individualized service to all Manitobans, at the lowest cost possible.

It's an approach that has worked. And it's no secret that our accomplishments and our reputation rest on the capabilities and strength of our staff, management and business partners. Their continued dedication to serving Manitobans is what truly defines our success.

On behalf of my colleagues on the Board of Directors, I'd like to thank everyone who contributed to the success of our organization this year. I look forward to another year of working with all of you to meet the insurance needs of Manitobans.



Shari Decter Hirst
CHAIRPERSON OF THE BOARD

MANITOBA PUBLIC INSURANCE BOARD OF DIRECTORS

<i>Back row, from left</i> Jack Zacharias	<i>Front row, from left</i> Kerry Bittner
Andrew Clarke	Shari Decter Hirst Chairperson
Daryl Reid	
<i>Middle row, from left</i> Manisha Pandya	
Ed Arndt	
Annette Maloney	



President's Message

Manitoba Public Insurance takes great pride in its ability to mitigate risk and manage the corporation's financial health for the benefit of its customers.

By remaining vigilant to emerging trends and taking decisive action, the corporation has, over the last 32 years, delivered on its pledge to provide comprehensive insurance coverage at an affordable price without sacrificing customer service.

In 2003, the corporation faced some significant challenges. Manitobans were involved in a record number of collisions, and the serious injuries caused by these crashes severely tested our financial planning. Yet, despite these unfortunate events, the company is even stronger today than it was last year. That's quite an achievement for a company that has held the line on rates for five years and continues to offer the best insurance value in Canada.

One disturbing trend we've watched over the last decade is the growth in bodily injuries throughout Canada. During that time, the ratio of bodily injury claims to physical damage claims has tripled. In Manitoba, the number of injury claims increased two per cent in 2003 to 15,693. In particular, the number of brain injuries rose to 97 from 63 a year ago, which helped drive up claims costs more sharply. The most common factors in these crashes: speed and the failure to wear a seatbelt.

At Manitoba Public Insurance we believe our job is to educate motorists about these major road safety hazards and how they affect insurance rates. For example, we know that the average cost of one brain injury claim is equal to the annual premiums paid by about 3,300 Manitobans.

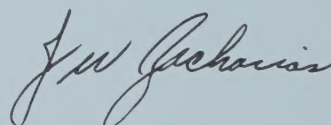
Following the significant increase in brain injury claims last year, we looked closely at the underlying cause of these crashes to determine if a new trend was developing. As a monopoly, we can identify new trends earlier since we collect and analyze all the injury data. In other jurisdictions, where the market is split among several insurers, trends take longer to spot because such data aren't routinely pooled or shared.

When the rise in brain injury claims was thoroughly assessed, the evidence suggested the increase was an

aberration rather than a new trend. This careful analysis is but one example of the constant alertness we have come to expect from our staff.

They responded again in January 2004 when Manitobans filed 25,616 claims—a new winter claims record. Front-line employees worked extra hours six days a week during this frigid month of multiple snowstorms to process customers' claims as quickly as possible. Despite these demands on our staff, our customer satisfaction level actually increased slightly for that month. It was truly a team effort, as call centre and claims staff worked together to meet this challenge.

I'm very proud to be part of a company whose employees place such a high value on our commitment to Manitobans—a commitment that shines even brighter in the face of adversity.



Jack Zacharias
PRESIDENT AND CHIEF EXECUTIVE OFFICER

MANITOBA PUBLIC INSURANCE EXECUTIVE

Back row, from left
Clarke Campbell
Vice-President, Corporate
Information Technology and
Chief Information Officer

Marilyn McLaren
Vice-President, Corporate
Insurance Operations

Barry Galenzoski
Vice-President, Corporate
Finance, Chief Financial
Officer and Chief
Administration Officer

Charlie Rogers
Vice-President
Human Resources

Middle row, from left
Wilf Bedard
Vice-President
Corporate Claims

John Douglas
Vice-President
Corporate Public Affairs

Kevin McCulloch
Vice-President, Corporate
Legal, General Counsel and
Corporate Secretary

Front
Jack Zacharias
President and
Chief Executive Officer



Manitoba Public Insurance sets Autopac premium rates to break even, not to make a profit. Manitoba's rates are dramatically lower than in provinces where the private insurance industry is responsible for supplying coverage.

We're providing acc

In Manitoba, we believe automobile insurance should protect all drivers from physical and economic harm. Everyone deserves protection.

That's why *The Manitoba Public Insurance Corporation Act* requires us to offer basic Autopac coverage to anyone with the legal right to register a vehicle. Instead of restricting who can buy coverage, we work hard to ensure that our rating system charges premiums according to the amount of risk each person and vehicle bring to the insurance pool.

That's in stark contrast to other jurisdictions, where private insurers may deny drivers coverage on the basis of risk assessment. In those provinces,

some people end up buying inadequate coverage or driving uninsured. That puts everyone at greater risk.

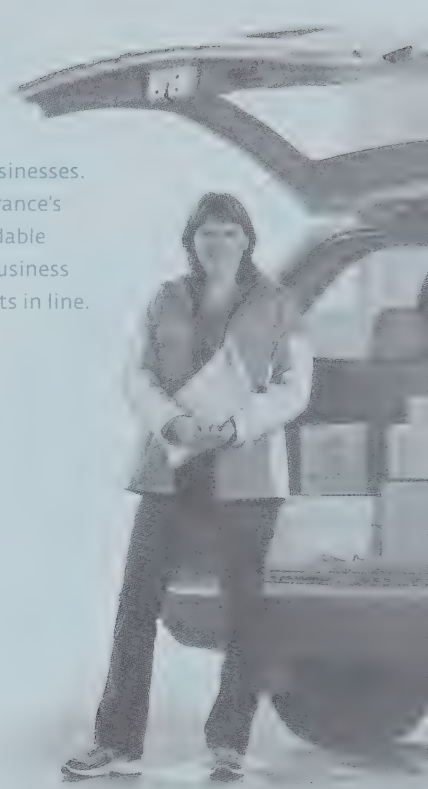
We recognize that an automobile is usually the first or second most expensive purchase a person will make. That's why access to high quality, affordable insurance is so important. It's also why Manitoba Public Insurance provides its customers with a number of options for paying and financing their premiums.

In Manitoba, vehicle owners have a lot of control over what they pay for their auto insurance. They can pay anywhere from \$200 to \$2,000

Manitoba Public Insurance assigns higher risk to young drivers only if they demonstrate risky behaviour by causing crashes or breaking traffic laws. That means our young people enjoy auto insurance that is more accessible and much cheaper than in other jurisdictions.



Steep and fluctuating insurance rates can present significant problems for small businesses. Manitoba Public Insurance's stable rates and affordable coverage help small business owners keep their costs in line.



complete access to coverage

or more, depending on the kind of vehicle they choose to drive, how regularly they choose to drive it and their personal driving record.

We also assess risk on a more individual basis. As a monopoly, Manitoba Public Insurance can look at each Manitoban's complete driving record. We don't need to calculate rates on the basis of artificial factors, such as a person's age, gender, credit rating or marital status.

In some jurisdictions, the insurance system is far less equitable for younger and senior drivers—particularly single males under the age of 25. For those without a perfect driving record, a single at-fault crash can double insurance premiums or cause the policy to be cancelled. When these young people are denied access to insurance, they are also restricted in terms of mobility, employment and economic advancement.

In Manitoba, we recognize that, in a high-risk group with a crash rate of 15 per cent, 85 per cent of the group has remained accident-free. We think it's unfair to require that 85 per cent

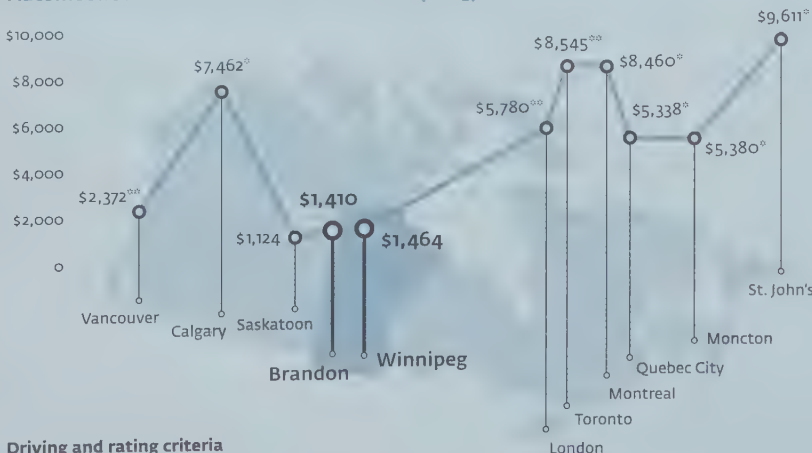
pay more for their coverage when they haven't personally engaged in risky behaviour.

We do, of course, penalize poor drivers. Manitobans strongly believe that people who cost the Autopac insurance fund should pay more than those who don't. The corporation's rating and classification system makes this happen by surcharging drivers for at-fault accidents and traffic infractions, which can add hundreds of dollars to the cost of an individual's insurance.

Manitobans can take pride in the fairness of their automobile insurance system.

Access is virtually guaranteed and risk is assigned on the basis of individual choice and behaviour rather than artificial barriers. We reward good drivers and penalize those engaged in risky behaviour. This approach ensures everyone has access to the protection they need from physical and economic harm.

Automobile insurance rates across Canada (2003)



Driving and rating criteria

2001 Cavalier LS • 18-year-old male, claims-free driver • All-purpose use • \$200/\$250^{oo}/\$300^{oo} deductible • \$1 million third-party liability
Comparison provided by Runzheimer Canada. Rates as of June 12, 2003.



Unlike some insurers who select their customers based on the level of risk they present, Manitoba Public Insurance offers full coverage to every Manitoban who needs it.

We're covering

cl

Our mission statement says it all:
Protecting Manitobans from the human and economic cost of automobile accidents.

At Manitoba Public Insurance, we live that mission every day. Our coverage provides drivers with better value than anywhere else in the country. And, just as important, people aren't afraid to use this protection. Manitobans report claims at a higher average rate than almost anyone else in the country because our claims process is simple, we don't penalize people for using their insurance, and we ensure people get the benefits and coverage they are entitled to.

In short, at Manitoba Public Insurance we're dedicated to covering claims, not avoiding them.

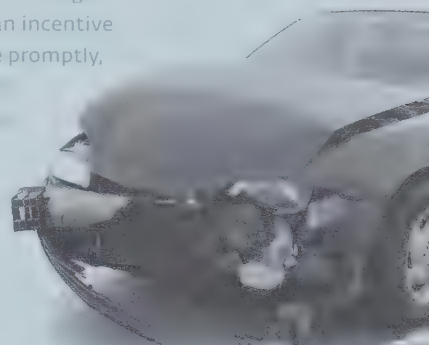
Unlike some insurers, who pick and choose their customers based on how much they use the product, we offer physical damage coverage to every Manitoban who can legally register a vehicle. Through our Personal Injury Protection Plan (PIPP), any Manitoban injured in an automobile collision in Canada or the United States has full access to all the care, rehabilitation and financial compensation they require.

In many other jurisdictions, escalating premiums are prompting drivers to pay for more of their own accident repairs instead of making insurance claims. In New Brunswick, for example, drivers file only half the claims, per capita, that Manitobans do. A study by the Collision Industry Action Group last year found that across Canada insurance companies



In some provinces, filing a claim can mean a hefty rate increase. As a result, many drivers choose to pay for accident repairs themselves. The ability to use the coverage you've purchased is an incentive to repair your vehicle promptly,

eliminating the need for costly out-of-pocket expenses.



aims —not avoiding them

were paying for only 50 per cent of the total work done by repair and auto body businesses, compared with 66 per cent just three years before. The study said drivers, fearing rising insurance rates, were increasingly choosing to foot the bill for accident repairs between \$1,000 and \$12,000.

That's not an issue in this province, where Manitoba Public Insurance is committed to delivering all the benefits claimants are entitled to, with the highest levels of customer service. Year after year, Manitoba Public Insurance provides more benefits to claimants than almost any insurance company in Canada. Our corporate goal is to pay out more than 85 cents of every premium dollar in the form of claims benefits. That compares with an average payout of about 70 cents per premium dollar among private insurers.

PIPP addresses two public concerns —rate stability and equitable compensation for injury victims. Besides eliminating costly settlements for minor claims, PIPP emphasizes the care and rehabilitation of severely injured claimants.

When Manitoba introduced the Personal Injury Protection Plan in 1994, the program's goals were simple:

- shift injury compensation from minor injuries with no real economic loss to enhance benefits for those severely injured;
- provide claimants with benefits in a more timely fashion; and
- provide Manitobans with premium stability.

Ten years later, no one can deny the insurance rate stability that Manitoba enjoys. The PIPP program has ended the uncertainty associated with the court process and delivers benefits quickly to people who have experienced economic loss. It has ushered in a new customer-focused case manager model that enables claimants to recover twice as fast, and has provided significantly more benefits to claimants who are catastrophically injured.

Manitoba Public Insurance can continually outperform private insurance companies because its mandate is to break even and provide the best possible value. By eliminating the profit motive, the company can

keep operating costs at half those of the private sector on average. Programs established by Manitoba Public Insurance enable auto body shops to repair vehicles at 37 per cent less cost and still exceed international quality standards.

While Manitoba represents four per cent of Canada's population, the province accounts for 70 per cent of all Canadian repair shops certified as Gold Class by the Inter-Industry Conference on Auto Repair. The net result—vehicles are repaired more safely and get back on the road more quickly.

Manitobans know they are getting good value for their premium dollars. More important, they know they can use this coverage whenever they need to make a claim, no matter how large or small.

Customer service standards ensure that Manitoba Public Insurance understands the impact of every interaction with Manitobans. By benchmarking our service against customer expectations, we can be sure we continue to meet their changing needs.

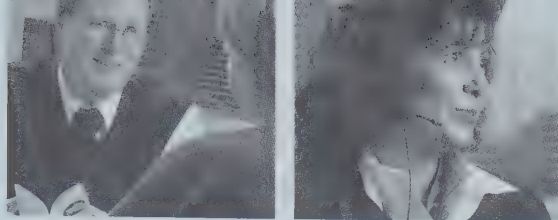
We're offering serv

On an average workday, the Manitoba Public Insurance call centre receives 2,550 calls. Last year those calls translated into the processing of nearly 230,000 claims, 120,000 requests for claims information and 112,000 other public inquiries.

Each of these calls is an opportunity to help our fellow Manitobans, and to add value to our relationship. From the moment a customer first opens a claim until the claim is settled, we strive to meet the customer's every need.

In 2000, we established a set of corporate-wide standards to ensure our service would consistently exceed the expectations of our customers, no matter where they live.

A recent independent survey showed that 90% of our customers are satisfied with the way their claims were handled.



you the best ice possible

These standards are concrete and measurable, and adjusted to meet the changing needs of customers over time. They range from underlying commitments to treat customers courteously and honestly, to specific time periods and criteria for estimating a vehicle and completing a claim.

Three and a half years and more than seven million customer contacts later, the results are clear. In 2003, our customers told us we met or exceeded our service standard targets 94 per cent of the time. In fact, Manitoba Public Insurance outperformed other insurers in terms of prompt settlement of customer claims, a major factor affecting customer satisfaction.

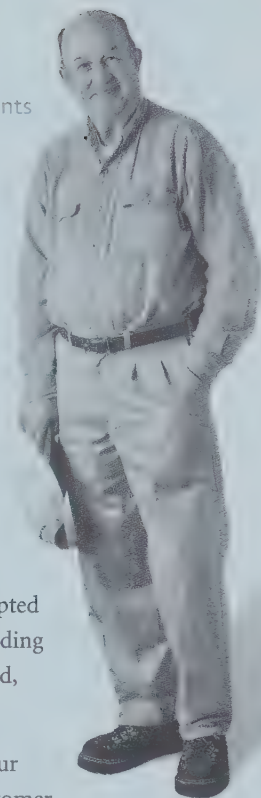
When Manitoba Public Insurance was created in 1971, the corporation pledged to make insurance services available to all our customers, in all areas of the province. Today we have 22 claims offices in 13 communities, and a network that brings direct service to 72 communities through telephone reporting and road runs.

Our commitment to customer service shines through, especially in emergency situations. When Altona was hit by a hailstorm in July 2003, claims staff set up an emergency centre in the community. Within three days of the storm, the facility was up and running, even though there was no permanent Manitoba Public Insurance office in the town.

The corporation also stresses that injury case management be tailored to each client. The Personal Injury Protection Plan, introduced 10 years ago, has paved the way for a co-ordinated team approach focused on helping claimants achieve as full a recovery as possible.

Training for this new approach was introduced to staff in partnership with the University of Manitoba, which created a case management program. Through specialized courses, case managers were trained to work closely with medical professionals in an empathetic style of case management. Together, they develop personalized programs aimed at improving quality of life for those most seriously injured.

More than 90 per cent of claimants over the age of 65 told us that their expectations were met or exceeded by Manitoba Public Insurance when it came to having a claim settled.

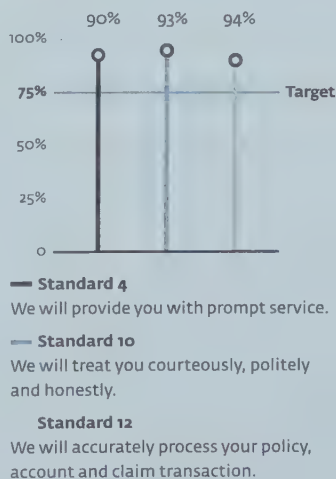


The program has since been adopted by other disability insurers, including the Workers Compensation Board, Wawanesa and Great-West Life.

At Manitoba Public Insurance, our commitment to outstanding customer service means looking after our neighbours when they need us most.

Customer service standards performance

In 2003, our customers told us we met or exceeded our targets on key service standards over 90 per cent of the time.





Manitoba Public Insurance is well known for providing comprehensive auto insurance at the lowest possible cost. People are aware of the value the company brings to the province and its economy.

We're creating through our

Every day, Manitoba Public Insurance shows its value to Manitobans by investing in their communities and putting premium revenue back into the provincial economy in the form of claims benefits.

The corporation has built a national reputation for its affordable insurance rates, comprehensive coverage and attentive claims service.

We demonstrate these advantages every year by comparing our rates to those charged throughout Canada. We reinforce them by ensuring that the amount we spend operating the company every year is less than 50 per cent of the Canadian industry average.



value productivity

While the value of our insurance products is widely recognized, our overall importance to the economy is not so well known. The financial impact of our spending power and investment policies ripples throughout the province. These policies and practices contribute to Manitoba's progress and prosperity through job creation, economic development and a contribution of more than \$187 million in federal, provincial and municipal taxes.

Before Manitoba Public Insurance was established, insurance dollars collected from Manitobans would flow outside the province to Toronto, Montreal and New York. The creation of a public auto insurance system has kept investment dollars right here in Manitoba for the benefit of everyone.

The economic impact of Manitoba Public Insurance ripples through the province, contributing to the progress and prosperity of every community. Its spending practices and investment policies support more than 10,000 jobs every year.

Over our 32-year history, this has amounted to an investment of more than \$798 million in our municipalities, schools and health-care facilities.

This year, the impact of Manitoba Public Insurance on the provincial economy was studied by the Manitoba Bureau of Statistics, which has assessed the economic impact of many major projects in the province. Using financial data from the 2001/02 insurance year, it found Manitoba Public Insurance spent nearly 99 per cent of its expenditures (\$618 million) inside Manitoba and bought about 75 per cent of its goods and services from local businesses.

The Bureau also calculated significant spin-off effects. The dollars channelled into the provincial economy by Manitoba Public Insurance generated another \$288 million in activity by other businesses, contributing to 10,065 direct and indirect jobs.

Our core business—paying claims to repair vehicles and helping people recover from crashes—accounts for \$450 million annually in economic activity. Manitoba Public Insurance returns a greater percentage of its

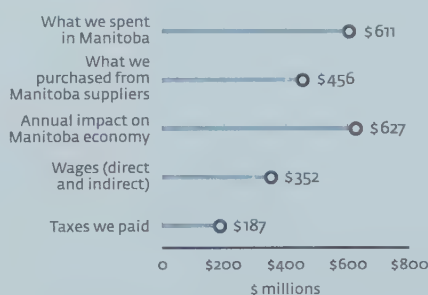
Our business operations and related activities create significant economic spin-off benefits for Manitoba. For example, payments for hospital care, physician and dental services and other related health-care and social services topped \$20 million in 2001/02.



premium dollar in the form of claims benefits than any other insurance company in Canada. This money flows to individual claimants, auto body shops and health-care professionals.

Providing value to our customers means more than simply providing universal insurance coverage at an affordable cost. In doing so, we're also helping build communities and creating greater economic opportunity for the whole province.

How we contribute to Manitoba's economy



Revenue impacts estimated by Manitoba Bureau of Statistics based on Manitoba Public Insurance's financial records for the 2001/02 fiscal year.

Fair Practices Office

It has been said that the true success of an organization can be measured by the way it handles its customers and their concerns.

With that credo in mind, the Fair Practices Office (FPO) is continuously examining the impact of Manitoba Public Insurance policies, procedures and legislation on customers.

The FPO takes the material under review and makes a constructive determination on whether improvements can or should be made. It is this focus on rigorous and continuous scrutinizing that helps keep this organization at the forefront of the insurance industry and in the vanguard of excellence in customer service.

The FPO was established in late 1999 and completed its fourth full year of operation in 2003. Reporting directly to the President and Chief Executive Officer, the office monitors the organization's procedures and their effect on our customers, and reports back to the corporation on our customers' changing needs and expectations.

Part of the office's examination process involves investigating all formal Manitoba Public Insurance customer concerns presented to the provincial Ombudsman. The office also receives input from customers who do not use this formal mechanism and from Manitoba Public Insurance staff about issues that affect their roles and customer service.

A focus of the FPO is to resolve as many outstanding issues as possible in a relatively informal way.

For the fiscal year 2003/2004, the FPO received 443 documented customer inquiries broken down by their referral source as follows:

Customer	228
Formal/informal Ombudsman inquiries	146
Internal referrals	69

It recommended the corporation revise its decision in 26 situations, or about six per cent of the cases it reviewed. In 94 per cent of the situations that were examined (417 of 443), the FPO's findings supported the original decision.

While the office promotes fair process, it is not a formal avenue of appeal. It can recommend that an issue be reviewed and can also alert the corporation's Executive that a policy may be unfair. Individual customers who bring their concerns to the office can be assured they will receive assistance in determining the best "next step" for their particular issue.

After examining customer issues from a number of perspectives, the FPO reports its observations directly to the President and Chief Executive Officer. Depending upon the nature of the issue, some of these observations will result in a comprehensive examination of the policy or process. Direct access to the highest level provides a unique opportunity for the office to bring systemic customer issues to the

attention of the corporation's highest decision-makers, thus ensuring a thorough examination of these issues.

An important focus of the FPO is to ensure that Manitoba Public Insurance continues to offer comprehensive auto insurance and superior coverage—in keeping with the corporate goals and mission. In order to fulfil this commitment, the office continues to benchmark our insurance products, coverages and benefits against the industry standards.

The FPO remains committed to reviewing systemic issues that customers believe may be unfair and to ensuring that these issues receive meticulous examination. The office will continue to put Manitoba Public Insurance customers first by working to refine policies, procedures and legislation to better reflect their needs and expectations.

Fair Practices Office,
Total Customer Inquiries
(1999–2003)



Management Discussion & Analysis

Corporate Profile

Corporate Vision

Manitoba Public Insurance will be a leader in automobile insurance, providing Manitobans with superior products, coverage and service. Manitoba Public Insurance will anticipate and meet the evolving needs of Manitobans. Manitoba Public Insurance is dedicated to offering provincewide accessibility and, in co-operation with its business partners, will perform at the highest attainable levels of economy, efficiency and effectiveness.

Manitoba Public Insurance will lead innovative road safety programs that raise awareness of the inherent risk of driving and develop educational programs that help Manitobans acquire the skills to avoid accidents, thereby making driving safer.

Manitoba Public Insurance will be one of the best places in the province to work and pursue a career, where people will deliver knowledgeable and caring service in new and innovative ways, feel justifiable pride in their work and careers, and be appropriately recognized for their contributions in helping the corporation achieve its goals. Manitobans will understand and support the unique contribution Manitoba Public Insurance makes to the province of Manitoba.

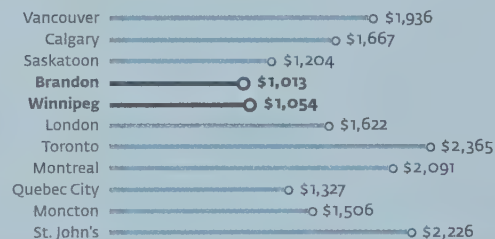
Corporate Goals, Measures and Strategies

Manitoba Public Insurance strives to achieve seven broad corporate goals. Expected outcomes are measured and five-year key strategies have been developed to reflect and address the current realities of the corporation's marketplace and to meet various stakeholder expectations and obligations. Several of the strategies, while presented in support of a particular corporate goal, also support other corporate goals. Manitoba Public Insurance's corporate goals, measures and strategies are as follows:

1. Goal:

Universally available mandatory protection against the cost of automobile accidents. Rates, on average, will be lower than those charged by private insurance companies for comparable coverage and service.

Rates based on: 2002 Ford Taurus SE 4-door • 45-year-old driver • Six years claim-free driving • All-purpose use • \$200 deductible • \$1M third-party liability
Comparison provided by Runzheimer Canada. Rates as of June 12, 2003.



Measure: Among the lowest rates in Canada

Strategies:

Basic automobile insurance—to continue to ensure that the basic, compulsory program meets the needs of Manitoba motorists for affordable, accessible and comprehensive coverage.

To keep all controllable costs at their lowest possible level through continuous focus on savings in claims and operating costs.

To improve the efficiency and convenience of Manitoba Public Insurance's distribution and service network by reducing or eliminating low value transactions.

To reduce corporate costs by improving the corporation's influence and buying power to ensure service providers are as efficient as possible while keeping customers' needs in mind.

To the maximum extent possible, leverage synergies offered by strategic partners that are mutually beneficial, improve customer service and reduce costs.

To increase the percentage of revenue which is derived from investment income while remaining within acceptable investment risk profiles.

To create and maintain an information technology environment which is sufficiently efficient, adaptable, expandable and current to capitalize on opportunities to improve customer service or reduce costs.

Management Discussion & Analysis

2. Goal:

The Basic plan will return 85 per cent of premium revenue to Manitobans in the form of claims benefits.

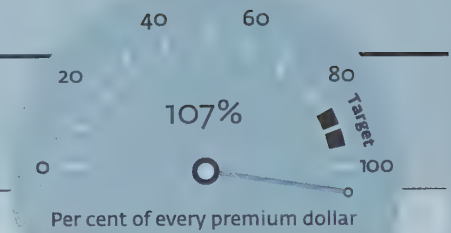
Measure: Premium returned for each dollar earned

Strategies:

To maintain operating costs at a maximum of 50 per cent of industry average.

To break even over the long term on Basic automobile insurance.

To utilize investment income to reduce the average premium paid by Manitobans.



3. Goal:

Manitoba Public Insurance will be a leader in automobile insurance, providing Manitobans with superior products, coverage and service.

Measure: Public satisfaction with claims performance

Strategies:

To ensure Manitobans receive understandable information on Manitoba Public Insurance products, their entitlements, services and service standards. The corporation will adopt a strategy that ensures messages reach the appropriate target groups at appropriate times.

Autopac Extension—to be profitable by providing products and services that continue to recognize the changing needs of our customers and continue to successfully achieve high levels of customer satisfaction through strategic pricing, accessibility and convenience. To mitigate risk through appropriate product design and automated underwriting techniques.

Special Risk Extension—to be profitable by responding to the variable and specialized needs of our commercial customers and providing personalized auto-related insurance products that cannot be met by the universal, compulsory program or by the Autopac Extension program. To partner with customers in pursuing fleet safety and loss prevention initiatives. To provide Manitobans with a stable market choice that promotes long-term partnerships.



4. Goal:

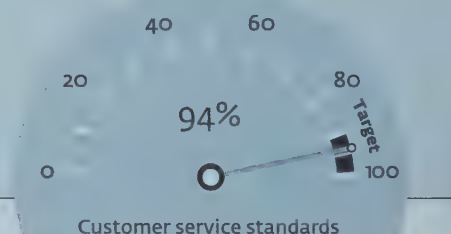
Manitoba Public Insurance will provide service that is responsive, fair, courteous and convenient. Customer service standards will be set by customer expectations and Manitoba Public Insurance will meet these service standards.

Measure: How often we meet/exceed standards

Strategies:

To create, publish and comply with comprehensive customer service standards for ourselves, brokers, business associates and service providers who are in contact with our customers.

To promptly address and respond to legitimate concerns expressed by our customers. To provide internal and external appeal mechanisms.



Management Discussion & Analysis

5. **Goal:**
Rate Stabilization Reserves will be maintained within established target levels.

Measure: Is RSR within the target range?

Strategies:

To maintain financial stability by setting appropriate premium rates, strengthening investment income and keeping Rate Stabilization Reserves within established target levels.

To continuously identify and assess potential risks and act explicitly to avoid and mitigate such risks.



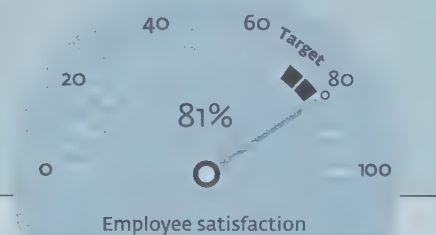
6. **Goal:**
Manitoba Public Insurance will offer an environment and career opportunities that are attractive to productive, improvement-minded people. Our people will be treated with respect and fairness and their contributions will be recognized.

Measure: Level of employee satisfaction

Strategies:

To foster a culture accepting of diversity. To attract, recruit, train and motivate target group candidates throughout the corporation. To build positive relationships within the Aboriginal community and to encourage employee involvement in this endeavour. To remove any systemic barriers that might impede our progress toward these goals.

To continue to respond to the issues raised by our employees. Particular emphasis will be given to providing clear direction and fostering a management style that reflects our values and supports employee commitment to the organization.



7. **Goal:**
Manitoba Public Insurance will lead initiatives on education to increase opportunities for drivers to enhance their driving skills and to increase public concern regarding risky driving behaviour.

Measure: Public support for road safety activities

Strategies:

To develop and manage education and awareness initiatives based on factors that contribute to automobile accidents and the actions Manitobans can take to prevent those accidents.

To partner with community groups across Manitoba supporting community-based initiatives that increase road safety awareness and education opportunities.



Management Discussion & Analysis

Results of Operations

Current Year and Last Year

Corporate

Corporate operating results show an improvement compared to last year. Net income of \$37.3 million exceeds last year's net loss of \$22.6 million, by \$59.9 million.

Total earned revenues for the year were \$679.2 million, an increase of \$44.1 million over last year. The growth in earned revenues is attributable to motor vehicles, which increased revenues by \$38.3 million. Increases in the number and value of vehicles insured contributed to the increase.

Total claim costs, including claims, loss prevention and road safety expenses, increased from last year by \$52.7 million to \$662.2 million.

Claims frequency continued to grow. The number of claims reported for the year was 243,401 and represents an increase of 16,142 or 7 per cent over last year's total of 227,259. In addition, total Autopac, basic and extension, claims severity, measured as the average cost per claim, also increased from \$2,228 last year to \$2,301, an increase of \$73 or 3.3 per cent.

Total corporate expenses increased by \$8.1 million to \$109.4 million. Increases in earned revenues contributed to increases in commissions and premium taxes, which increased by \$7.3 million.

The corporation's positive bottom line was mainly generated on the strength of increased investment income. Corporate investment income increased from \$57.6 million to \$134.9 million, an increase of \$77.3 million. Improvements in the corporation's equity portfolio resulted in the realization of equity gains amounting to \$50.4 million.

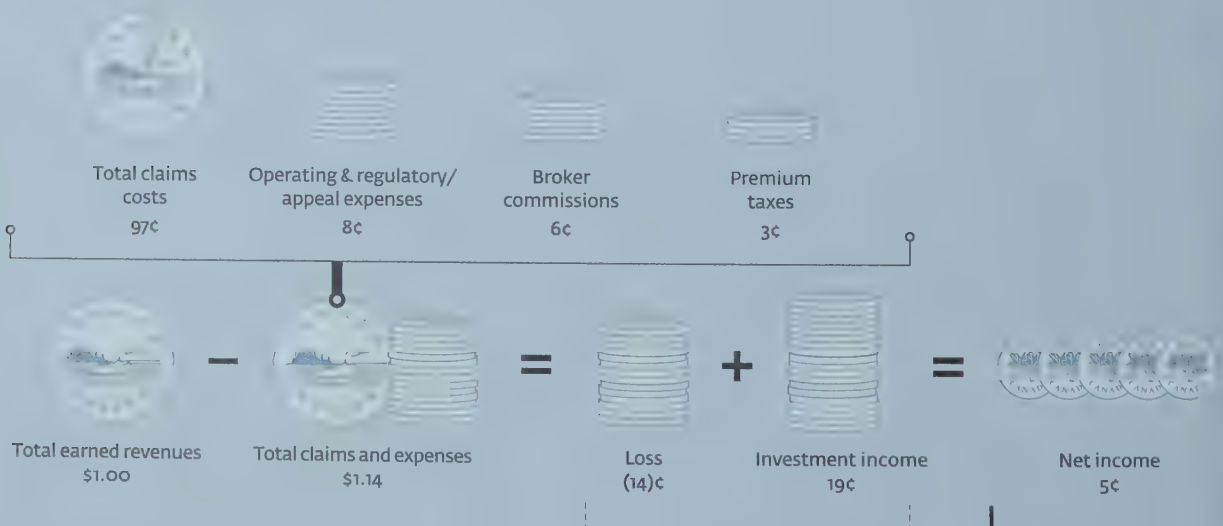
Basic

Operations reported net income of \$3.4 million compared to a net loss of \$30.1 million last year, an improvement of \$33.5 million.

Total earned revenues increased by \$27.0 million to \$563.2 million. The positive growth in earned revenues is due to motor vehicle earned revenue resulting from increases in the number and value of vehicles insured. The number of policies in force increased from 809,223 to 824,930.

Total claim costs, including claims, loss prevention and road safety expenses, rose from last year's total of \$533.8 million to \$587.4 million, an increase of \$53.6 million.

Where your premium dollar has gone



Management Discussion & Analysis

Physical damage claims costs increased by \$16.8 million from last year. Collision costs rose by \$12.9 million relating to an increase in the number of collision claims from 114,340 last year to 124,102 this year. Comprehensive costs increased by \$3.6 million. A rise of 966 theft claims, to 12,085 from 11,119, contributed to the increase in comprehensive costs.

Injury claims costs increased by \$29.0 million from last year. The severity of the average Personal Injury Protection Plan (PIPP) claim rose from \$2,631 to \$3,472, an increase of 32 per cent. Contributing to the increase in severity of PIPP claims was a significant rise in the number of serious losses experienced in 2003.

YEARS ENDED FEBRUARY 29/28

	2004	2003	2002	2001	2000
Type of Claim					
Chronic pain	66	73	173	205	351
Fatal	139	142	152	148	161
Brain damage	97	63	50	64	52
Quadriplegic	3	3	2	6	2
Paraplegic	8	7	1	9	8
Broken bones	811	640	688	669	660
Whiplash	12,249	9,425	8,749	7,309	8,285
Bruising/lacerations	871	636	756	598	1,023
Other	1,449	4,432	3,987	3,864	2,399
Total	15,693	15,421	14,558	12,872	12,941

Basic's share of the corporate investment income increased by \$64.4 million to \$108.5 million. The positive growth relates to the gains realized from the corporation's equity portfolio.

YEARS ENDED FEBRUARY 29/28

(IN THOUSANDS OF DOLLARS)	2004	2003	2002	2001	2000
Basic Autopac Five Year Statistics					
Premiums written	558,378	537,235	506,722	464,275	460,806
Claims incurred	513,548	467,715	433,873	378,137	352,743
Claims expense	67,043	58,944	56,159	50,400	52,457
Other expenses	87,768	83,849	76,201	80,108	78,700
Income (loss)	3,358	(30,135)	(11,707)	38,100	40,513

Extension

Operations reported net income of \$8.0 million, up \$4.7 million from the \$3.3 million net income reported last year.

Total earned revenues increased by \$11.1 million to \$69.8 million. All products contributed to the increase in premium revenue.

Total claim costs, including claims, loss prevention and road safety expenses, increased by \$8.4 million to \$53.2 million. Physical damage claims costs increased by \$2.6 million, exhibiting the same trends as the Basic line of business. Injury claims increased by \$5.1 million due mainly to adverse development on claims which occurred in prior years compared to the favourable development experienced last year.

Extension's share of the corporate investment income increased by \$4.9 million to \$8.9 million. As with the Basic line of business, the positive growth relates to the gains realized from the corporation's equity portfolio.

Management Discussion & Analysis

YEARS ENDED FEBRUARY 29/28

(IN THOUSANDS OF DOLLARS)	2004	2003	2002	2001	2000
Extension Five Year Statistics					
Premiums written	73,182	61,494	52,325	43,608	39,179
Claims incurred	46,425	38,677	45,314	37,100	33,134
Claims expense	6,255	5,522	6,899	6,191	5,443
Other expenses	18,015	15,241	13,402	11,866	10,497
Income (loss)	8,001	3,292	(11,606)	(6,130)	(3,783)

Special Risk Extension

Operating results reported net income of \$25.1 million, an increase of \$21.1 million from the \$4.0 million net income reported last year.

Total claim costs, including claims, loss prevention and road safety expenses, decreased by \$9.4 million to \$21.6 million. Liability claims costs decreased by \$6.2 million primarily due to favourable development on claims that occurred in prior years. Physical damage claims costs declined by \$3.0 million due to a drop in the claims severity.

Special Risk Extension's share of the corporate investment income increased by \$6.8 million to \$11.5 million. This positive growth relates to the gains realized from the corporation's equity portfolio.

YEARS ENDED FEBRUARY 29/28

(IN THOUSANDS OF DOLLARS)	2004	2003	2002	2001	2000
SRE Five Year Statistics					
Premiums written	48,705	42,742	36,124	31,171	29,708
Claims incurred	18,950	28,202	23,902	16,194	13,424
Claims expense	2,601	2,789	2,433	2,150	2,181
Other expenses	11,019	9,833	8,695	7,872	10,373
Income	25,140	4,049	6,821	14,658	14,179

Current Year and Expected

Corporate

Corporate operating results show an improvement compared to expected results. Net income of \$37.3 million exceeded expected results of \$0.2 million by \$37.1 million.

Increases in investment income and total earned revenues of \$55.2 million and \$9.1 million respectively were partially offset by higher than expected claims costs of \$24.2 million and expenses of \$3.0 million.

Basic

Net income of \$3.4 million was \$4.6 million more than expected.

Claim costs exceeded expectations by \$44.8 million. This variance is primarily associated with an increase in the number of serious losses that occurred in 2003. Also contributing to the higher than expected claims costs was a rise in the severity of the average PIPP claim from \$2,529 to \$3,472, an increase of 37.3 per cent.

Positive returns on the corporation's equity portfolio contributed to a \$47.0 million increase in investment income compared to an expected amount of \$61.5 million.

Management Discussion & Analysis

Extension

Net income of \$8.0 million was \$8.2 million more than the target.

Earned revenues and expenses did not vary significantly from expected targets. Claims costs, however, decreased, showing an improvement to the target of \$4.2 million. A lower than anticipated claims severity for comprehensive claims was the primary factor.

Positive returns on the corporation's equity portfolio contributed to a \$3.3 million increase in investment income compared to an expected amount of \$5.6 million.

Special Risk Extension

Net income of \$25.1 million was \$23.6 million more than expected.

Claims costs were less than expected by \$15.9 million. The positive variance is attributable to a decrease in the severity of liability claims associated with favourable development on claims that occurred in prior years. This line of business is especially susceptible to large losses and the favourable results experienced this year are not expected to continue next year.

Positive returns on the corporation's equity portfolio contributed to a \$4.8 million increase in investment income compared to an expected amount of \$6.7 million.

Investment Income

Manitoba Public Insurance's investment portfolio performed well, though being underweight in equities, which has helped performance over the past two years. Manitoba Public Insurance's investments are 76 per cent in bonds (fixed income). The majority of this amount is invested in marketable bonds issued by Canadian provinces. The marketable bond portfolio returned 9.5 per cent on a market basis during the year. The portfolio also holds \$335 million of non-marketable bonds issued by Manitoba municipalities, school divisions and health facilities that are purchased through the Manitoba Department of Finance. Canadian equities returned 31.3 per cent over the year, under the 36.5 per cent return for the S&P/TSX Composite Index. U.S. equities performed very well, returning 34.3 per cent over the past year, compared to 24.7 per cent for the S&P 500 Index in Canadian dollars. Extra return was generated through the use of a currency hedge that offset major movements in the Canadian dollar during the year.

The corporation earned total investment income of \$134.9 million, an increase of \$77.3 million from last year. This income was earned from the investment of funds not immediately needed to pay claims and reduced the cost of the average premium by \$142 (2003–\$59). Public insurance schemes utilize all investment income to reduce rates that would otherwise be payable by policyholders.

Basic Rate Stabilization Reserve (RSR) and Retained Earnings

To maintain financial stability, the corporation strives to maintain adequate levels for the Basic Insurance Rate Stabilization Reserve (RSR) and retained earnings. In 1999, the Canadian Institute of Actuaries adopted a standard for Dynamic Capital Adequacy Testing (DCAT), which requires appointed actuaries to report on the financial strength of property and casualty insurance companies. DCAT is a formal approach to "stress testing" the financial strength of a line of business by estimating the future financial results if various events should occur. To address the adequacy of these reserves, the corporation has established target levels by line of business which have been approved by the Board of Directors. On a regular basis, the DCAT analysis will be undertaken by the corporation's external actuary to review the RSR and retained earnings targets.

Basic

As at February 29, 2004, the Basic Insurance RSR totaled \$42.8 million compared to \$35.4 million last year.

The current level is below the established minimum target level of \$80.0 million by \$37.2 million.

The corporation is committed to rebuilding the RSR to fall within the target level with the principal funding being derived from transfers from the Extension and SRE lines of business. It is anticipated that these transfers will contribute approximately \$29.4 million to the RSR in 2004.

Management Discussion & Analysis

Extension

As at February 29, 2004, the retained earnings balance is \$43.3 million compared to \$35.3 million last year.

The balance of \$43.3 million is \$4.3 million above the target of \$39.0 million established for this line of business.

Effective March 1, 2004, approximately \$4.3 million will be transferred to the Basic Insurance RSR in accordance with corporate policy.

Special Risk Extension

As at February 29, 2004, the retained earnings balance is \$58.1 million compared to \$37.1 million last year.

The balance of \$58.1 million is in excess of the approved target of \$33.0 million by \$25.1 million. Effective March 1, 2004, \$25.1 million will be transferred to the Basic Insurance RSR in accordance with corporate policy.

Risk Management

Unpaid Claims

Manitoba Public Insurance maintains provisions for unpaid claims on a discounted basis to cover its future claims commitments. The corporation makes provisions for future development on claims that have been made and an estimate for those that may have occurred but are not yet reported.

In the case of major injuries, only a small portion of the total benefit is paid in the first year. As time passes and more information is available, the estimates are revised to reflect the most current forecast of claims costs.

Because the total amount paid on any single claim may be different from its initial reserve, Manitoba Public Insurance reviews the adequacy of these reserves annually and required adjustments, if needed, are calculated by the corporation's actuary. An independent assessment of the reserves is also conducted by the corporation's external actuary. Furthermore, as part of its annual audit of Manitoba Public Insurance's financial results, the external auditor also reviews the adequacy of the reserves.

Technology

Information systems and their inherent infrastructure provide the corporation with the ability to process and monitor the major components of our business, which include premiums, claims and investments.

An interruption to the services and/or infrastructure could disrupt operations. To minimize this exposure, the corporation is in the process of establishing a parallel computer site, within Manitoba. This is a key part of the corporation's business continuity plan. This facility will also assist in application development and testing.

Obsolescence, in terms of computer technology, can impact the corporation's ability to maintain customer service and meet its business objectives. To address this, the corporation reviews and develops long-term expense and capital forecasts to ensure that technology upgrades are affordable and within the corporation's financial forecasts. In addition, the corporation constantly monitors upgrades provided by third-party vendors to ensure current versions are supportable.

Liquidity

Cash and cash equivalents are essential components of the corporation's financial liquidity management. Cash flows are monitored to ensure sufficient resources are available to meet the corporation's current operating requirements. Excess funds not needed to meet current operating requirements are invested in long-term instruments to be used to meet future obligations.

Cash flows provided by operating activities increased to \$178.5 million from \$92.6 million last year. Contributing to this improvement was a \$59.9 million increase in net income and a \$35.3 million increase in the change in unpaid claims, which do not require an immediate pay out. Cash flows used for investing activities increased to \$236.8 million from \$59.6 million last year.

Refer to Annual Report *note 4* for a breakdown of the corporation's investment portfolio.

Management Discussion & Analysis

Sustainable Development

For Manitoba Public Insurance, sustainable development means making choices that are right for our business and our communities, both for today and tomorrow.

The company's sustainable development efforts range from recycling paper in our offices to more complex initiatives such as extracting and safely disposing of potentially harmful substances throughout our operations. Manitoba Public Insurance has maintained many such sustainable operations, programs and initiatives for years.

In 2003, the company embarked on a Sustainable Development program to enhance these activities and practices. This involved creating corporate procurement and financial management guidelines, and a Code of Practice, all founded on the principles of sustainable development. The company also set out a Sustainable Development Action Plan, which includes a number of long-standing and new initiatives.

These guidelines and action plan will ensure Manitoba Public Insurance continues to consider the economic, environmental and social impact of all aspects of our operations.

Road Safety

Manitobans know the value of road safety. In a survey last year, nine out of 10 respondents told us they supported our work to promote public awareness and educate drivers about our three top safety priorities: drinking and driving, seatbelt use and speeding. For the third year in a row, the number of driving-related deaths declined in 2003—thanks in part to targeted enforcement initiatives, tougher laws and community groups that joined with Manitoba Public Insurance to deliver neighbourhood-based programs aimed at reducing crashes and associated injuries.

The corporation remains concerned, however, with the rise in catastrophic injuries caused by speed and the failure to wear a seatbelt. Contributing to that concern is the lack of general road safety enforcement in Manitoba, which continues to allow drivers to engage in risky behaviour without legal consequences.

In 2003 the corporation also worked with community groups and road safety partners to deliver effective programs promoting auto crime prevention, safe use of motorcycles, bicycles and snowmobiles, and senior driver safety. Through SpeedWatch and the Citizens on Patrol Program (COPP), we worked with concerned neighbours to make our communities safer. We partnered with enforcement agencies to pioneer new programs combating excessive speed and drinking and driving. Meanwhile, our advertising campaigns promoting safe practices consistently exceeded national advertising measures in terms of reach, recognition and effectiveness.

Loss Prevention

While repair costs in the rest of Canada and the United States increased by 7.0 per cent in 2003, a comprehensive loss prevention program at Manitoba Public Insurance reduced overall repair costs by 3.7 per cent in Manitoba during the same period.

According to 2003 Mitchell Estimating Information, the average physical damage claim in Manitoba was \$1,882 compared with the Canadian industry average of \$2,980.

Effective management of claims costs through loss prevention programs reduced costs by a significant amount. The corporation's ability to manage costs associated with towing, labour and other contracted services also contributed to the savings.

The use of recycled parts saved the corporation \$12.7 million in 2003 while the use of aftermarket parts reduced corporate costs by \$8.9 million.

In addition, premium payers benefited from the sale of more than 19,000 total-loss vehicles earning \$17.7 million in salvage sales. A comprehensive auto theft strategy also reduced costs associated with theft by \$2 million.

Management Discussion & Analysis

Manitobans continue to support corporate efforts to reduce fraud. In 2003, the corporation's fraud tips line received 958 calls. In all, the corporation's Special Investigation Unit examined 3,544 suspicious injury and physical damage claims during the last fiscal year, saving policyholders several million dollars.

The corporation also protected premium-payers' dollars by recovering \$11.2 million through subrogation efforts, an increase of \$1.5 million over 2002.

Investments

The Investment Committee as appointed by the Board of Directors is responsible for the development of an investment policy for the corporation. The investment policy ensures that sufficient long- and short-term investment funds are available to pay the liabilities of the corporation and to provide investment income that will assist in minimizing premiums payable by policyholders. These assets must be managed in a manner that will maximize return while minimizing risk in an overall portfolio context. The investment policy provides for diversification among various investment instruments such as short-term holdings, bonds and equities.

The corporation remains committed to achieving its seven corporate goals. Actual results will be monitored and corrective actions taken when necessary to ensure that expected outcomes are realized.

Under *The Crown Corporations Public Review and Accountability Act*, Manitoba Public Insurance is required to submit Basic Autopac rates to the Public Utilities Board (PUB) for approval. The corporation generally files its rate application in June of each year for the insurance year beginning the following March.

On December 4, 2003 the PUB released its ruling on Manitoba Public Insurance's rate application for the 2004/2005 insurance year. Effective March 1, 2004, Basic insurance rates will be increased by an average of 3.7 per cent. Although Basic insurance rates will change, the corporation will not alter any of the components of the Basic insurance plan.

Current projections indicate that the corporation is expected to realize a net income of \$2.8 million during the 2004/05 fiscal year.

MANITOBA PUBLIC INSURANCE

Financial Statements

ANNUAL REPORT

03

Responsibility for Financial Statements

The financial statements are the responsibility of management and are prepared in accordance with Canadian generally accepted accounting principles. The financial information contained elsewhere in the annual report is consistent with that in the financial statements. The financial statements necessarily include amounts that are based on management's best estimate and judgments which have been reached based on careful assessment of data available through the Corporation's information systems. In the opinion of management, the accounting practices utilized are appropriate in the circumstances and the financial statements fairly reflect the financial position and results of operations of the Corporation.

In carrying out its responsibilities, management maintains appropriate systems of internal and administrative controls designed to ensure that transactions are accurately recorded on a timely basis, are properly approved and result in reliable financial statements. The adequacy and operation of the control systems are monitored on an ongoing basis by the Internal Audit Department.

The financial statements were approved by the Board of Directors, which has overall responsibility for their contents. The Board of Directors is assisted with this responsibility by its Audit Committee (the "Committee"), which consists primarily of Directors not involved in the daily operations of the Corporation.

The general responsibilities of the Committee are categorized into the following: review of financial reporting, review of internal controls and processes, review of actuarial functions, monitoring of corporate integrity, compliance with authorities and review of performance reporting. The Committee's role is that of oversight in these areas in order to ensure management processes are in place and functioning so as to identify and minimize risks to the business operations.



J.W. Zacharias

PRESIDENT AND CHIEF EXECUTIVE OFFICER

April 28, 2004

In carrying out the above responsibilities, this Committee meets regularly with management, and with both the Corporation's external and internal auditors to approve the scope and timing of their respective audits, to review their findings and to satisfy itself that their responsibilities have been properly discharged. The Committee is readily accessible to the external and internal auditors.

The Committee is responsible for the review of the actuarial function. As well, the Committee recommends, for approval, the appointment of the external actuary and his fee arrangements to the Board of Directors. The actuary is responsible for ensuring that the assumptions and methods used in the valuation of policy and claims liabilities are in accordance with accepted actuarial practice, applicable legislation and associated regulations or directives. In addition, the actuary provides an opinion regarding the valuation of policy and claims liabilities at the balance sheet date to meet all policyholder obligations of the Corporation. Examination of supporting data for accuracy and completeness of assets and their ability to meet the policy and claims liabilities are important elements in forming the actuary's opinion.

KPMG LLP, the Corporation's appointed external auditors, have audited the financial statements. Their Auditors' Report is included herein. Their opinion is based upon an examination conducted in accordance with Canadian generally accepted auditing standards, performing such tests and other procedures as they consider necessary in order to obtain reasonable assurance that the financial statements are free of material misstatement and present fairly the financial position of the Corporation in accordance with Canadian generally accepted accounting principles.



B.W. Galenzoski

VICE-PRESIDENT CORPORATE FINANCE
CHIEF FINANCIAL OFFICER AND
CHIEF ADMINISTRATION OFFICER

Auditors' Report

To the Board of Directors of Manitoba
Public Insurance Corporation:

We have audited the balance sheet of Manitoba Public Insurance Corporation as at February 29, 2004 and the statements of operations, retained earnings, basic insurance rate stabilization reserve and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at February 29, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.



CHARTERED ACCOUNTANTS
Winnipeg, Canada
April 28, 2004

Actuary's Report

To the Board of Directors of Manitoba
Public Insurance Corporation:

I have valued the policy liabilities of Manitoba Public Insurance Corporation for its balance sheet at February 29, 2004 and their change in the statement of operations for the year then ended in accordance with accepted actuarial practice, including selection of appropriate assumptions and methods.

In my opinion, the amount of policy liabilities makes appropriate provision for all policyholder obligations and the financial statements fairly present the results of the valuation.



James K. Christie
FELLOW, CANADIAN INSTITUTE OF ACTUARIES
Winnipeg, Manitoba
April 28, 2004

Financial Statements

Statement of Operations

YEARS ENDED FEBRUARY 29/28

(IN THOUSANDS OF DOLLARS)

	2004	2003
Revenue		
Premiums written	\$ 680,265	\$ 641,471
Premiums earned (Note 8)	\$ 663,966	\$ 621,476
Service fees	15,253	13,667
Total earned revenues	679,219	635,143
Claims Costs		
Claims incurred (Note 8)		
Current year	581,921	560,966
Prior years (Note 7)	(2,998)	(26,372)
	578,923	534,594
Claims expense	75,900	67,256
Loss prevention/Road safety	7,412	7,659
	662,235	609,509
Expenses		
Commissions	38,719	32,810
Operating	48,378	47,690
Premium taxes	20,362	18,980
Regulatory/Appeal	1,931	1,783
	109,390	101,263
Total claims and expenses	771,625	710,772
Underwriting loss	(92,406)	(75,629)
Investment income, net (Note 10)	128,905	52,835
Net income (loss) before the undernoted	36,499	(22,794)
Discontinued operations (Note 11)	764	189
Net income (loss) (Note 13)	\$ 37,263	\$ (22,605)

The accompanying notes are an integral part of these financial statements.

Financial Statements

Balance Sheet

FEBRUARY 29/28

(IN THOUSANDS OF DOLLARS)

	2004	2003
Assets		
Cash and investments (Note 4)	\$ 1,459,869	\$ 1,278,359
Due from other insurance companies	3,344	637
Accounts receivable	194,452	169,467
Deferred policy acquisition costs	11,869	7,929
Reinsurers' share of unearned premiums	12,955	11,191
Reinsurers' share of unpaid claims (Note 7)	53,384	56,657
Property and equipment (Note 5)	29,283	28,210
Deferred development costs	2,459	5,985
	1,767,615	1,558,435
Liabilities, Basic Insurance Rate Stabilization Reserve and Retained Earnings		
Due to other insurance companies	11,880	13,393
Accounts payable and accrued liabilities	22,419	23,643
Unearned premiums	340,189	321,544
Provision for employee current benefits	9,767	9,383
Provision for employee future benefits (Note 6)	109,486	96,161
Provision for unpaid claims (Note 7)	1,125,195	982,895
	1,618,936	1,447,019
Basic insurance rate stabilization reserve	42,773	35,366
Retained earnings (Note 14)	105,906	76,050
	148,679	111,416
	\$ 1,767,615	\$ 1,558,435

The accompanying notes are an integral part of these financial statements.

Approved by the Board:



Shari Decter Hirst
CHAIRPERSON



Kerry Bittner
DIRECTOR

Financial Statements

Statement of Basic Insurance Rate Stabilization Reserve

(IN THOUSANDS OF DOLLARS)	YEARS ENDED FEBRUARY 29/28	
	2004	2003
Balance beginning of year	\$ 35,366	\$ 50,461
Net income (loss) (Note 13)	3,358	(30,135)
Surplus distribution (Note 12)	—	525
Transfer from Special Risk Extension (Note 14)	4,049	14,515
Basic insurance rate stabilization reserve balance end of year	\$ 42,773	\$ 35,366

Statement of Retained Earnings

(IN THOUSANDS OF DOLLARS)	YEARS ENDED FEBRUARY 29/28	
	2004	2003
Balance beginning of year	\$ 76,050	\$ 83,035
Net income (Note 13)	33,905	7,530
Transfer to basic insurance rate stabilization reserve from Special Risk Extension (Note 14)	(4,049)	(14,515)
Retained earnings balance end of year	\$ 105,906	\$ 76,050

The accompanying notes are an integral part of these financial statements.

Financial Statements

Statement of Cash Flows

(IN THOUSANDS OF DOLLARS)	YEARS ENDED FEBRUARY 29/28	
	2004	2003
Cash Flows from (to) Operating Activities:		
Net income (loss)	\$ 37,263	\$ (22,605)
Surplus distribution (Note 12)	—	525
Discontinued operations	(764)	(189)
Non-cash items:		
Amortization of property and equipment and deferred development costs	7,875	7,639
Amortization of bond discount and premium	796	(794)
Gain on sale of investments	(9,195)	(15,669)
Write-down of investments	—	699
	35,975	(30,394)
Increase in cash and short-term investments from discontinued operations	63	59
Net change in non-cash balances:		
Due from other insurance companies	(2,707)	887
Accounts receivable	(24,985)	(32,953)
Deferred policy acquisition costs	(3,940)	3,659
Reinsurers' share of unearned premiums and unpaid claims	1,509	2,166
Due to other insurance companies	(1,513)	3,660
Accounts payable and accrued liabilities	(1,224)	4,743
Unearned premiums	18,645	23,592
Provision for employee current benefits	384	516
Provision for employee future benefits	13,325	9,075
Provision for unpaid claims	142,949	107,635
	142,443	122,980
	178,481	92,645
Cash Flows from (to) Investing Activities:		
Acquisition of property and equipment net of proceeds from disposals	(5,256)	(5,053)
Purchase of investments	(504,625)	(407,661)
Proceeds from sale of investments	273,288	353,766
Deferred development costs incurred	(166)	(650)
	(236,759)	(59,598)
Increase (Decrease) in Cash and Short-Term Investments	(58,278)	33,047
Cash and short-term investments beginning of year	146,166	113,119
Cash and Short-Term Investments end of year (Note 4)	\$ 87,888	\$ 146,166

The accompanying notes are an integral part of these financial statements.

Notes to Financial Statements

FEBRUARY 29, 2004 AND FEBRUARY 28, 2003

General Information

The Manitoba Public Insurance Corporation (the "Corporation") was incorporated as a Crown Corporation under *The Automobile Insurance Act* in 1970. In 1974, *The Automobile Insurance Act* was revised and became *The Manitoba Public Insurance Corporation Act* (Chapter A180 of the continuing consolidation of the Statutes of Manitoba). In 1988, the Act was re-enacted in both official languages as Chapter P215 of the Statutes of Manitoba.

Under the provisions of its Act and regulations, the Corporation operates an automobile insurance division and a discontinued general insurance division. The lines of business for the automobile insurance division provide for basic universal compulsory automobile insurance, extension and special risk coverages. For financial accounting purposes, the lines of business for the automobile insurance division and the discontinued general insurance division are regarded as separate operations and their revenues and expenses are allocated on a basis described in the summary of significant accounting policies.

The financial statements of the Corporation are in such form as prescribed by Section 43(1) of The Manitoba Public Insurance Corporation Act and are presented in accordance with Canadian generally accepted accounting principles.

The external actuary is appointed by the Board of Directors of the Corporation. With respect to preparation of these financial statements, the external actuary is required to carry out a valuation of the policy liabilities and to report thereon to the Corporation's Board of Directors.

The external actuary, in his verification of the information prepared by the Corporation used in the valuation, also uses the work of the external auditors.

The external auditors are appointed by the Lieutenant Governor in Council to conduct an independent and objective audit of the financial statements of the Corporation in accordance with Canadian generally accepted auditing standards. In carrying out their audit, the external auditors also make use of the work of the external actuary and his report on the Corporation's policy liabilities. The external auditors' report outlines the scope of their audit and their opinion.

Summary of Significant Accounting Policies

This summary outlines those accounting policies followed by the Corporation which have a significant effect on the financial statements.

Investments

Funds available for investments are invested by the Department of Finance, on behalf of the Corporation, in accordance with Section 12(1) of The Manitoba Public Insurance Corporation Act.

Investments in bonds are carried at amortized costs. The applicable discounts or premiums are amortized over the life of the bond.

Investments in equities and other investments are carried at cost. Dividends on equity investments are recognized on an accrual basis.

Gains and losses on investments are recognized on the date of sale. Investments are written down to market value when there is a decline in value that is considered other than temporary.

The Corporation has invested in an equity-linked note that is similar to a bond instrument, except for the interest component which is indexed to the Standard & Poor's 500 Composite Stock Price Index. Any interest component arising from changes in the index is recorded currently in the Statement of Operations under the heading "Investment income, net."

Notes to Financial Statements

FEBRUARY 29, 2004 AND FEBRUARY 28, 2003

The Corporation may invest in total return swaps as part of its investment strategy to provide limited exposure to certain equity markets. Total return swaps are financial instruments whose value is derived from an underlying financial instrument, product or index. Total return swaps are recorded at fair value at the balance sheet date and presented under the heading "Cash and investments." Any gains or losses arising from changes in fair value are recorded currently in the Statement of Operations under the heading "Investment income, net."

Deferred Policy Acquisition Costs

Commissions and premium taxes are deferred and charged to expense over the term of the insurance contract to which such costs relate.

Property and Equipment

Property and equipment are stated at cost less accumulated amortization. Amortization is provided on a straight-line basis which will amortize the cost of each asset over its estimated useful life:

Land improvements	25 years
Buildings	40 years
Equipment:	
Data processing	3 years
Automotive	5 years
Other	10 years

Leasehold improvements are amortized over the term of the lease plus the first renewal period.

Deferred Development Costs

The costs of developing major information systems which are expected to be of continuing benefit to the Corporation are deferred to future periods. These information system expenditures are stated at cost net of accumulated amortization and are amortized on a straight-line basis over five years.

Unearned Premiums

The liability for unearned premiums is the portion of premiums that relate to the unexpired term of each insurance contract.

Provision for Employee Benefits

Provision for Employee Current Benefits

The provision for employee current benefits includes an accrual for vacation pay determined in accordance with the Collective Agreement.

Provision for Employee Future Benefits

Included in the provision for employee future benefits are the pension benefit plan and other benefit plans.

i) Pension Benefit Plan

The employees of the Corporation are members of a defined benefit pension plan administered under the Civil Service Superannuation Act. Included in the accounts is a provision for the employer's future pension liability calculated on an indexed basis. The provision for pension is actuarially determined on an annual basis using the projected benefit method prorated on services. The actuarial present value of the accrued pension benefits is measured using the Corporation's best estimates based on assumptions relating to market interest rates at the measurement date based on high quality debt instruments, salary changes, withdrawals and mortality rates. Experience gains and losses are amortized over the expected average remaining service life of the employee group.

ii) Other Benefit Plans

Other benefit plans consist of post-retirement extended health and severance pay benefits.

The provision for post-retirement extended health benefits is actuarially determined on an annual basis using the projected benefit method prorated on services, which includes the Corporation's best estimates based on assumptions relating to retirement ages of employees and expected health costs.

Notes to Financial Statements

FEBRUARY 29, 2004 AND FEBRUARY 28, 2003

Employees of the Corporation are entitled to severance pay in accordance with the Collective Agreement and Corporation policy. The provision for severance pay is actuarially determined on an annual basis using the projected benefit method prorated on services, without salary projection, which includes the Corporation's best estimates based on assumptions relating to the proportion of employees that will ultimately retire.

Provision for Unpaid Claims

The provision for unpaid claims represents an estimate for the full amount of all costs, including adjustment expenses, and the projected final settlements of claims incurred to the balance sheet date. These provisions take into account the time value of money. These estimates of future loss activity are necessarily subject to uncertainty and are selected from a wide range of possible outcomes. To recognize the uncertainty in establishing these estimates and to allow for possible deterioration in experience, actuaries include explicit margins for adverse deviation, in their assumptions. These provisions are adjusted up or down as additional information affecting the estimated amounts becomes known during the course of claims settlement. All changes in estimates are recorded as incurred claims in the current period.

Salvage and Subrogation

Recoveries from salvage and subrogation are recorded as an offset to claim costs. Expected future subrogation recoveries are included in the provision for unpaid claims.

Premium Deficiencies

A premium deficiency exists when future claims and related expenses exceed unearned premiums.

Premium deficiencies are recognized first by writing down the deferred policy acquisition costs with any remainder recognized as a liability.

Allocation of Revenue, Claims Incurred and Expenses

Premiums written, premiums earned and claims incurred are allocated directly to the division writing the insurance risk.

Investment income is allocated to the automobile insurance division lines of business and the discontinued general insurance division based on a monthly averaging of the funds available within each division.

Expenses, including claims expense, are allocated to the automobile insurance division lines of business on the following basis:

- i) Identifiable direct expenses are charged to each line of business.
- ii) Where direct allocation is not possible, expenses are prorated to each line of business based mainly on factors such as space, number of employees and time usage. The formulas developed for the allocation of expenses are approved by the Board of Directors.

Reinsurance Ceded

Premiums, claims and expenses are reported net of amounts due to and recoverable from reinsurers. Estimates of amounts recoverable from reinsurers on unpaid claims are recorded separately from estimated amounts payable to policyholders.

The reinsurers' share of unearned commissions is recognized as a liability in a manner which is consistent with the method used in determining deferred policy acquisition costs.

The reinsurers' share of unearned premiums is recognized as an asset in a manner which is consistent with the method used in determining the unearned premium liability.

Foreign Currency

Monetary items denominated in foreign currencies are adjusted to reflect the exchange rate in effect at the year-end. Revenue and expense items in foreign currencies are translated at the exchange rate in effect at the transaction date. Unrealized gains and/or losses arising on translation are charged to operations in the current year.

Notes to Financial Statements

FEBRUARY 29, 2004 AND FEBRUARY 28, 2003

The Corporation uses currency swaps and forward exchange contracts to manage the currency risk on specific foreign exchange denominated assets. Any gains or losses are recorded in the Statement of Operations under the heading "Investment income, net," on a fair value basis.

Basic Insurance Rate Stabilization Reserve

The basic insurance rate stabilization reserve relates to basic compulsory automobile insurance and is intended to protect motorists from rate increases made necessary by unexpected events and losses arising from non-recurring events or factors.

Retained Earnings

Retained earnings are comprised of the accumulation of net income or losses for the extension, special risk and discontinued lines of business.

Measurement Uncertainty

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

4. Cash and Investments

(IN THOUSANDS OF DOLLARS)

	2004		2003	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash and short-term investments	\$ 87,888	\$ 87,888	\$ 146,166	\$ 146,166
Bonds				
Federal	219,320	237,756	154,840	162,762
Manitoba:				
Provincial	121,391	129,931	120,098	125,316
Municipal	40,373	40,429	42,691	42,788
Hospitals	14,972	14,989	15,471	15,490
Schools	279,185	279,185	261,467	261,467
Other Provinces	356,054	378,691	328,046	337,957
Corporations	67,819	70,910	60,356	63,756
Equity-linked note	20,000	20,000	20,000	20,000
	1,119,114	1,171,891	1,002,969	1,029,536
Other	4,874	4,874	4,734	4,734
Equity investments and				
total return swaps	247,993	263,148	124,490	129,895
	252,867	268,022	129,224	134,629
	\$ 1,459,869	\$ 1,527,801	\$ 1,278,359	\$ 1,310,331

Fair value, for cash and short-term investments, approximates carrying value due to the short-term maturity of these financial instruments.

The fair value of bonds for federal, provincial, certain municipal, other provinces and corporations is estimated based on bid prices of these or similar investments.

Notes to Financial Statements

FEBRUARY 29, 2004 AND FEBRUARY 28, 2003

The fair value of certain municipal, hospital, school bonds and other is based on their carrying value which approximates market value.

The fair value of the equity-linked note and equity investments is based upon quoted market values.

The fair value of the portfolio of total return swaps is based upon market prices of the underlying stock market indices at the balance sheet date, net of estimated unwinding costs.

Investment Risk

Investments carry certain financial risks including interest rate, cash flow and credit risk. The Corporation manages these risks through the Investment Committee of the Board, which meets quarterly to discuss strategy. The investment objectives and goals of the Corporation are embodied in an Investment Policy document, which sets target asset allocation and portfolio concentration limits as well as defining the credit quality of the counterparties and the percentage of highly liquid investments required to meet cash flow needs. Credit risk is also managed through the use of master netting agreements in all total return swap contracts. Such agreements provide for the simultaneous close-out and netting of transactions with a counterparty in the event of default.

Significant terms and conditions, exposure to interest rate and credit risks on investments are:

i) Cash and short-term investments

Cash consists of cash net of cheques issued in excess of amounts on deposit. Included in cash and short-term investments are funds held in trust on behalf of other insurance companies in the amount of \$11,576,000 (2003-\$5,500,000).

Short-term investments have a total principal amount of \$74,436,000 (2003-\$130,897,000) comprised of provincial short-term deposits with effective interest rates of 2.05% to 2.25% (2003-2.55% to 2.80%), with interest receivable at varying dates.

ii) Bonds—interest rate risk

	Interest Receivable Basis	2004		2003	
		Effective Rate	Coupon Rate	Effective Rate	Coupon Rate
		% Range		% Range	
Federal	semi-annual	2.39 to 5.05	4.00 to 8.75	3.58 to 5.44	4.00 to 8.75
Provincial	semi-annual	2.24 to 11.03	2.71 to 10.50	3.23 to 5.93	4.75 to 10.50
Municipal	semi-annual	2.27 to 13.51	5.38 to 14.88	3.45 to 14.06	6.00 to 14.88
Hospitals	semi-annual	10.13 to 13.49	10.13 to 13.63	10.13 to 13.56	10.13 to 13.63
Schools	semi-annual	5.66 to 13.61	5.75 to 14.75	5.66 to 13.95	5.75 to 14.75
Corporations	semi-annual	1.97 to 5.20	3.96 to 11.00	3.25 to 10.20	5.00 to 11.25

The Corporation has allocated investments with an average yield of 10.5% (2003-9.5%) to maturity to fully fund pre-March 1, 1994 weekly indemnity discounted unpaid claims of approximately \$22.4 million.

Notes to Financial Statements

FEBRUARY 29, 2004 AND FEBRUARY 28, 2003

iii) Bonds—maturity profile

(IN THOUSANDS OF DOLLARS)

	2004			
	Within One Year	One Year to Five Years	After Five Years	Total Carrying Value
Federal	\$ —	\$ 41,494	\$ 177,826	\$ 219,320
Manitoba:				
Provincial	2,030	37,119	82,242	121,391
Municipal	2,376	5,718	32,279	40,373
Hospitals	196	14,776	—	14,972
Schools	1,420	23,145	254,620	279,185
Other Provinces	5,219	89,880	260,955	356,054
Corporations	8,103	33,835	25,881	67,819
	19,344	245,967	833,803	1,099,114
Equity-linked note	—	20,000	—	20,000
	\$ 19,344	\$ 265,967	\$ 833,803	\$ 1,119,114

(IN THOUSANDS OF DOLLARS)

	2003			
	Within One Year	One Year to Five Years	After Five Years	Total Carrying Value
Federal	\$ —	\$ 26,488	\$ 128,352	\$ 154,840
Manitoba:				
Provincial	4,371	15,634	100,093	120,098
Municipal	726	5,794	36,171	42,691
Hospitals	79	419	14,973	15,471
Schools	850	15,051	245,566	261,467
Other Provinces	—	33,919	294,127	328,046
Corporations	5,364	8,177	46,815	60,356
	11,390	105,482	866,097	982,969
Equity-linked note	—	20,000	—	20,000
	\$ 11,390	\$ 125,482	\$ 866,097	\$ 1,002,969

Total Return Swaps

In the normal course of operations, the Corporation may enter into total return swaps to provide a return based upon an underlying Canadian and/or USA equity index. The agreements provide that, at predetermined future dates, the Corporation pays a fixed interest amount based upon a notional principal amount and receives a return based upon the underlying equity index.

The notional amounts of total return swaps are not recorded as assets or liabilities on the balance sheet as they represent the face amount of the contract to which a rate or price is applied to determine the amount of cash flows to be exchanged under the contracts. Notional amounts represent the volume of outstanding transactions and do not represent the potential gain or loss associated with market risk or credit risk of such instruments.

At February 29, 2004 the notional amount of total return swaps was \$ nil (2003—\$70,387,000).

Currency Risk

i) Currency Swap

The Corporation has entered into a currency swap relating to a Province of Quebec provincial bond denominated in US dollars for \$10,000,000. The currency swap provides a fixed 5.76% return in Canadian dollars. The agreement also

Notes to Financial Statements

FEBRUARY 29, 2004 AND FEBRUARY 28, 2003

provides that at predetermined future dates, the Corporation pays a fixed 7.5% rate based on the US \$10,000,000 par value of the bond and receives 5.76% return based on a Canadian dollar notional value of \$13,350,000. The maturity date of the currency swap is July 15, 2023.

ii) Foreign Exchange Contracts

The Corporation has entered into monthly foreign exchange forward contracts which provide that the Corporation sells a specified amount of US dollars at a predetermined forward exchange rate and purchases the same amount of US dollars at the prevailing spot rate on the settlement date. At February 29, 2004, the Corporation has contracted to sell US \$65,000,000 at a forward rate of 1.34754 and purchase the same amount of US dollars at the spot rate on March 31, 2004.

Property and Equipment

(IN THOUSANDS OF DOLLARS)		2004		2003
	Cost	Accumulated Amortization	Carrying Value	Carrying Value
Land	\$ 2,061	\$ —	\$ 2,061	\$ 2,070
Land improvements	3,890	1,568	2,322	2,353
Buildings	25,708	8,808	16,900	15,138
Equipment	43,889	36,111	7,778	8,532
	75,548	46,487	29,061	28,093
Leasehold improvements	1,760	1,538	222	117
	\$ 77,308	\$ 48,025	\$ 29,283	\$ 28,210

Provision for Employee Future Benefits

The Corporation has a number of defined benefit plans providing pension and other benefits to eligible employees. The results from the latest valuation as at December 31, 2003 projected to February 29, 2004 and the major assumptions used are as follows:

	2004	2003	2004	2003
	Pension Benefit Plan		Other Benefit Plans	
Economic assumptions:				
Discount rate	5.75%	6.00%	5.75%	6.00%
Inflation rate	2.00%	2.75%	—	—
Expected salary increase	2.75%	2.75%	—	—
Expected health-care cost increase	—	—	5.00%	4.00%
	(IN THOUSANDS OF DOLLARS)			
Plan valuations:				
Present value of plan benefits	\$ 102,257	\$ 93,241	\$ 19,726	\$ 14,716
Unamortized actuarial losses	(12,497)	(11,796)	—	—
Provision for employee future benefits	\$ 89,760	\$ 81,445	\$ 19,726	\$ 14,716
Financial information:				
Plan expense	\$ 10,413	\$ 8,267	\$ 5,624	\$ 3,206
Allocated to investment income (Note 10)	(5,821)	(4,648)	—	—
	\$ 4,592	\$ 3,619	\$ 5,624	\$ 3,206
Employee contributions	\$ 3,851	\$ 3,544	\$ —	\$ —
Benefits/premiums paid	\$ 2,098	\$ 1,758	\$ 614	\$ 640

Notes to Financial Statements

FEBRUARY 29, 2004 AND FEBRUARY 28, 2003

The Corporation has not segregated investment assets to fund the benefit plans. Funding occurs as benefits are paid to employees.

Provision for Unpaid Claims

The provision for unpaid claims, including adjustment expenses, represents an estimate for the full amount of all costs and the projected final settlement of claims incurred.

The provision for unpaid claims, including adjustment expenses, is subject to variability. This variability is related to future events that arise from the date the loss was reported to the ultimate settlement of the claims. Accordingly, short-tail claims such as physical damage claims tend to be more reasonably predictable than long-tail claims such as public liability claims. Factors such as the receipt of additional claims information during the claims settlement process, changes in severity and frequencies of claims from historical trends and effects of inflationary trends contribute to this variability.

The determination of the provision for unpaid claims, including adjustment expenses, relies on judgment, analysis of historical claim trends, investment rates of return and expectation on the future development of claims. The process of establishing this provision necessarily involves risks which could cause the actual results to deviate, perhaps substantially, from the best determinable estimate.

The provision for unpaid claims, including adjustment expenses, by major claims category includes:

(IN THOUSANDS OF DOLLARS)	2004		2003	
	Gross	Reinsurers' Share	Gross	Reinsurers' Share
Automobile Insurance Division				
Liability	\$ 1,015,966	\$ 53,158	\$ 884,900	\$ 52,791
Physical Damage	101,061	226	89,178	3,866
	1,117,027	53,384	974,078	56,657
Discontinued Operations				
Personal/Commercial	8,168	—	8,817	—
	\$ 1,125,195	\$ 53,384	\$ 982,895	\$ 56,657

The provision for unpaid claims, including adjustment expenses, is discounted using the following discount rates:

	2004
	Interest Rate Assumptions
Benefits	
Pre-P.I.P.P. Weekly Indemnity	9.0% for seven years and 3.0% thereafter
All other coverages	By year — 6.05%, 5.70%, 5.35% and 5.00% thereafter
P.I.P.P. Other than death and impairment	3.0% per year
	2003
	Interest Rate Assumptions
Benefits	
Pre-P.I.P.P. Weekly Indemnity	9.0% for eight years and 3.0% thereafter
All other coverages	By year — 6.40%, 6.05%, 5.70%, 5.35% and 5.00% thereafter
P.I.P.P. Other than death and impairment	3.0% per year

Notes to Financial Statements

FEBRUARY 29, 2004 AND FEBRUARY 28, 2003

According to accepted actuarial practice, the discounted reserve includes a provision for adverse deviation of \$181.2 million (2003-\$138.5 million) comprised of a claims development component of \$110.5 million (2003-\$84.1 million) and an interest rate component of \$70.7 million (2003-\$54.4 million).

No catastrophic losses are included in net incurred claims or adjustment expenses during the current fiscal year (2003-\$ nil). Catastrophes are an inherent risk to the Corporation and may contribute materially to the year-to-year fluctuations in the Corporation's results of operations and financial condition when they occur.

Unpaid claim liabilities are carried at values which reflect their remaining estimated ultimate costs for all accident years.

Changes in the estimate of net unpaid claims, for the Automobile Insurance Division, recognized during the fiscal year ended February 29, 2004 for prior years are as follows:

(IN THOUSANDS OF DOLLARS)	2003	2002	2001	2000 AND PRIOR	TOTAL
	Accident Years				
Net unpaid claims (valuation estimate as at February 28, 2003)	\$ 270,808	\$ 127,714	\$ 95,269	\$ 423,630	
Net payments for the year	85,603	17,266	9,535	20,345	
	185,205	110,448	85,734	403,285	
Net unpaid claims (revised valuation estimate as at February 29, 2004)	150,787	109,459	87,052	434,376	
(Redundancy) Deficiency	\$ (34,418)	\$ (989)	\$ 1,318	\$ 31,091	\$ (2,998)
Prior years (redundancy) deficiency		\$ (15,788)	\$ (5,177)	\$ (5,407)	\$ (26,372)

The claims settlement processes may involve the use of structured settlements, which are purchased through various financial institutions. As of the balance sheet date, the present value of expected payments total \$122.0 million (2003-\$112.8 million) based on various dates of purchase. The Corporation assumes a financial guarantee to make payments to claimants in the event that financial institutions default on payments under the terms of the structured settlement.

Changes in the estimate of net unpaid claims for discontinued operations recognized during the fiscal year ended February 29, 2004 are \$0.6 million (2003-\$0.2 million). All of the net unpaid claims relate to loss dates prior to October 1, 1990.

The Corporation follows the practice of obtaining reinsurance to limit its exposure to losses. Under agreements in effect at February 29, 2004, these reinsurance agreements limit the Corporation's exposure to a maximum amount of \$2.5 million (2003-\$2.0 million) on any one occurrence.

The reinsurance arrangements also limit the Corporation's liability in respect to a series of claims arising out of a single occurrence, including catastrophic claims, to a maximum of \$5.0 million (2003-\$6.7 million). These arrangements protect the Corporation against losses up to \$150.0 million (2003-\$166.7 million).

Certain lines of insurance carry maximum limits lower than these amounts. While these arrangements are made to protect against large losses, the primary liability to the policyholders remains with the Corporation.

The Corporation evaluates the financial condition of its reinsurers to minimize the exposure to significant losses from reinsurer insolvency.

Notes to Financial Statements

FEBRUARY 29, 2004 AND FEBRUARY 28, 2003

The figures shown in the Statement of Operations, excluding discontinued operations, are net of the following amounts relating to reinsurance ceded to other companies:

(IN THOUSANDS OF DOLLARS)	2004	2003
Premiums earned	\$ 14,749	\$ 10,673
Claims incurred	\$ 14,781	\$ 16,900

The Corporation holds collateral in regards to unregistered reinsurance in the form of amounts on deposit and letters of credit of \$2.4 million (2003-\$6.1 million).

9. Operating Lease Commitments

The Corporation is committed to make minimum annual operating lease payments for buildings and equipment. The minimum annual lease payments required are approximately as follows:

(IN THOUSANDS OF DOLLARS)	
Fiscal Year	Minimum Lease Payments
2005	\$ 2,566
2006	\$ 2,499
2007	\$ 2,460
2008	\$ 2,439
2009	\$ 2,491
thereafter	\$ 10,369

10. Investment Income, Net

(IN THOUSANDS OF DOLLARS)	2004	2003
Total investment income	\$ 134,943	\$ 57,580
Less allocation to:		
Discontinued operations	217	97
Provision for pension benefit plan (Note 6)	5,821	4,648
Investment income, net	\$ 128,905	\$ 52,835

Included in total investment income are cash dividends of \$4.0 million (2003-\$2.3 million).

11. Discontinued General Insurance Operations

The Corporation discontinued writing reinsurance assumed business effective November 18, 1987 and personal and commercial insurance policies effective October 1, 1990.

As of February 28, 2001 the Corporation accepted a third party offer to purchase the reinsurance assumed business from the Corporation. Under the terms of the agreement, the Corporation transferred and assigned to the third party the title, interest and all of the obligations resulting from the uncommuted reinsurance assumed treaties written by the Corporation for the period July 1, 1975 to November 18, 1987 including retrocessional treaties. The obligations include all known or unknown liabilities. The primary liability to the treaty holders remains with the Corporation in the event of the third party's insolvency.

Claims costs and expenses on personal and commercial policies will be incurred until all claims on existing policies are settled.

Notes to Financial Statements

FEBRUARY 29, 2004 AND FEBRUARY 28, 2003

Discontinued operations resulted in a net income of \$764,000 in 2004 (2003-\$189,000). Included in the provision for unpaid claims is \$8.2 million (2003-\$8.8 million) relating to discontinued operations.

Surplus Distribution

On December 4, 2000 the Public Utilities Board of Manitoba approved the Corporation's 2001/2002 Basic Insurance rate application which included a one-time surplus distribution of 16.6% on motor vehicle premiums renewed during the 2001/2002 fiscal year.

Net Income (Loss)

The lines of business reported net income (loss) as follows:

(IN THOUSANDS OF DOLLARS)	2004	2003
Basic insurance	\$ 3,358	\$ (30,135)
Extension insurance	8,001	3,292
Special risk extension	25,140	4,049
Discontinued operations	764	189
	33,905	7,530
Net income (loss)	\$ 37,263	\$ (22,605)

Transfer of Retained Earnings

Annually on March 1, the Corporation will transfer to the Basic Insurance Rate Stabilization Reserve, retained earnings in excess of the approved target levels from the Special Risk Extension and Extension lines of business. The approved target levels to February 28, 2005, established by the Board of Directors, are:

Transfer Start Date	Line of Business	Target Level
March 1, 2002	Special Risk Extension	\$ 33.0 million
March 1, 2003	Extension	\$ 39.0 million

At March 1, 2004 the transfer from Special Risk Extension will approximate \$25.1 million (2003-\$4.0 million). The transfer from the Extension line of business will approximate \$4.3 million (2003-\$ nil).

Fair Value Disclosure

The fair value of financial assets and liabilities, other than cash and investments (note 4) and provision for unpaid claims (note 7) approximates their carrying values due to the immediate or short-term maturity of these financial instruments.

16. External Auditor and External Actuary Costs

The Basis of Reporting note (note 2) provides information on the appointment of the external auditor and external actuary. In the normal course of business, and in addition to the annual attest audit of the Corporation's financial statements and valuation of policy liabilities, the external auditor and external actuary provided advisory services to the Corporation.

Notes to Financial Statements

FEBRUARY 29, 2004 AND FEBRUARY 28, 2003

Costs incurred for services rendered are:

(IN THOUSANDS OF DOLLARS)

	2004	2003
KPMG		
Audit Fees	\$ 106	\$ 103
Advisory Fees	9	—
Total	\$ 115	\$ 103
Ernst & Young		
Valuation of Policy Liabilities Fees	\$ 120	\$ 70
Actuarial Advisory Fees	99	69
Management Advisory Fees	26	32
Total	\$ 245	\$ 171

17. Subsequent Event

Effective April 19, 2004, the Province of Manitoba announced that the provincial government has transferred the administration of driver licensing to Manitoba Public Insurance.

18. Comparative Figures

Certain of the comparative figures have been reclassified to conform with the current year financial statement presentation.

Administrative Offices

Brandon

731-1st Street R7A 6C3
Tel: 729-9400 • Head Office and
Special Risk Extension

Winnipeg

Box 6300 R3C 4A4
Tel: 985-7000

Outside Winnipeg
Tel: 1-800-665-2410

Deaf access TTY/TDD
Tel: 985-8832

Claim Offices

WINNIPEG LOCATIONS

North

445 King Street R2W 5H2
Fax: 942-8317

North Central

1103 Pacific Avenue R3E 1G7
Fax: 783-2764

South

930 St. Mary's Road R2M 4A8
Fax: 254-0308

South Central

420 Pembina Highway R3L 2E9
Fax: 284-7675

West

125 King Edward Street East R3H 0V9
Fax: 783-0374

Casualty and Rehabilitation

Box 6300 R3C 4A4
Tel: 985-7200

Rehabilitative Case Management

Box 6300 R3C 4A4
Tel: 985-7200

Bodily Injury

Box 6300 R3C 4A4
Tel: 985-7000

Physical Damage Centre

1981 Plessis Road
Box 45064
Regent Postal Outlet R2C 5C7
Tel: 985-7771

Holding Compound
Tel: 985-7766

Salvage
Tel: 985-7844

Commercial Claims
Tel: 985-7877

PROVINCIAL LOCATIONS

Arborg

323 Sunset Boulevard
Box 418 RoC 0A0
Tel: 376-6633

Beausejour

848 Park Avenue
Box 100A RoE 0Co
Tel: 268-6400

Brandon

731-1st Street R7A 6C3
Tel: 729-9555 • Claim Centre
1-800-852-2743 • Rural

Dauphin

217 Industrial Road
Box 3000 R7N 2V5
Tel: 622-2750

Flin Flon

8 Timber Lane
Box 250 R8A 1M9
Tel: 681-2200

Portage la Prairie

2007 Saskatchewan Avenue West
Box 1150 R1N 3J9
Tel: 856-2600

Selkirk

630 Sophia Street R1A 2K1
Tel: 482-1400

Steinbach

91 North Front Drive
Box 2139 R5G 1N7
Tel: 326-4453

Swan River

125-4th Avenue North
Box 1959 RoL 1Z0
Tel: 734-4574

The Pas

424 Fischer Avenue
Box 9100 R9A 1R5
Tel: 627-2200

Thompson

53 Commercial Place
Box 760 R8N 1N5
Tel: 677-1400

Winkler

355 Boundary Trail
Box 1990 R6W 4B7
Tel: 325-9538



